

ASSET CURRENCY AND OTHER SYSTEMS OF BANK NOTE ISSUE.

by

Karl B. Seibel.

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ASSET CURRENCY AND OTHER SYSTEMS OF BANK NOTE ISSUE.

I. Definition and Nature of Asset Currency.

The term asset currency is used to designate the issue of promissory note^d by banks, based upon their general credit, instead of upon bonds or other prescribed security separated from the other assets of the bank and placed on deposit with some trustee.

There is more or less of a demand in the United States for a system of asset currency. This demand comes from two sources; from loaning banks, and from the borrowing community.

The banks ask for the privilege of issuing asset currency on the ground that the issue of such notes would increase the loanable capital of the bank at times when there was a need for so doing, without creating a stringency in the money market. When the demand lessened the notes would naturally come back to the bank for redemption. In this way the bank could supply the demands ~~of~~ the community without being forced to draw in its loans, and thus cause a tight money market. Incidentally the income of the bank would be increased.

The borrowers also have a reason for desiring an asset currency. An asset currency would enable the banks to supply the demand made when its deposits were called upon without forcing it to draw in its loans, with the result that the borrowing public would be able to keep their investments, and would not be forced to sell at a sacrifice; or to pay higher rates of interests.

The question to be discussed in this paper is whether or not ~~x~~ these demands for an asset currency if met in any way will be to the best interests of the country; whether or not an asset currency is

a benefit or a detriment.

In studying this question it must be remembered that bank notes are not money but a form of credit, of substantially the same nature as bills of exchange, promissory notes and checks. Money and capital are regulated by the law of supply and demand like other commodities. Any historical and economic study of asset currency must take these facts into consideration; for it is upon their correct understanding and application that the student must base his reasoning when attempting to form a true estimate of the value of asset currency as a medium of exchange.

Money is a medium of exchange, but it is not necessarily the only medium. Credit may be used in place of money, and when it fills the place so well that it may always be exchanged for money at par it can safely take the place of money.

The two essential functions of money are "the creation of a standard of value, and the provision of a means of exchange. It is only in the fulfillment of the first function that exchange value is required in the material of which the currency is made",[#] in the second it is only required that the currency shall represent value, rather than that it shall contain value itself. In order to fulfill the second function the currency should be exchangeable at par for the standard of value. This latter function is to be filled by asset currency.

II. Early Banking and the Suffolk System.

Upon first thought history seems to show many arguments against

[#]A history of Modern Banks of Issue by Charles A. Conant p. 3.

asset currency. In the history of the United States we find trouble with the banks of issue; First in New England. One example will give an idea of the real cause of the trouble.

One Dexter secured the control of the Farmers' Bank of Gloucester, Rhode Island (between 1790 and 1810). He had the cashier and president of the bank issue notes secretly in the amounts desired by him. At one time the bank had over \$500,000 of its notes in circulation while it held in its vaults less than \$500.00 of notes of other banks and of specie, less than one one-thousandth of its issue. Every effort was made to deceive the public. In time the notes sold at a discount. Dexter in his desire to sell more notes before they went lower pushed the machinery of the bank so hard that no correct record was kept of the issues and many of the notes sent out were not signed or dated. The Explosion finally came.

Under a system of banking that permitted such dishonest and corrupt methods no form of paper currency could survive. The fault did not lie with the currency, but with the dishonest and corrupt methods of banking. No system of paper currency can be fairly judged where such methods prevail.

The early experiment of New England with bank notes was but an example of what occurred in the states west and south of New England as the banking craze swept over the country.

An attempt was first made in New England to correct the evils of bank note issues. The New England bank, chartered in 1813, made the first attempt and succeeded in lowering the discount on the notes of country banks to the lowest possible level, which discount was borne by the note holders; but no plan was devised for doing entirely away with the discount. This attempt came from a desire to increase

the field for the circulation of the New England Bank's notes. The finally successful attempt, which was made by the Suffolk Bank of Boston (chartered in 1818), was due to the same cause. The notes of the country banks circulated in Boston at a slight discount, and, under Gresham's law, drove out of circulation the notes of the Boston banks which passed at par.

The Suffolk managers conceived the idea of putting the cost of the redemption of the notes of country banks upon the issuing banks themselves instead of upon the note holders, thus abolishing the discount. The object of the Suffolk Bank was to make a profit for itself. Under the system as finally developed the Suffolk Bank redeemed the notes of country banks at par by an arrangement with the country banks, whereby they kept a sufficient sum deposited with the Suffolk Bank to redeem their notes and to pay it for its trouble in redeeming them. This sum was replenished as often as necessary. Much opposition was at first encountered from the country banks; but the Suffolk Bank, with the assistance of the other Boston banks, overcame all opposition by systematically collecting the notes of the country banks and presenting them at their respective banks for redemption. The principle upon which the whole system was based was that every thing paid over a bank's counter must be the equivalent of specie.

In 1845 the state of Massachusetts passed a law providing that no bank should pay over its counter any notes but its own. This law remained in force until the national banking system succeeded the Suffolk system. As no bank could pay out the notes of any other bank, it was compelled to send those that it took on deposit to

the Suffolk at once for redemption. Under the Suffolk system of redemption specie was seldom asked for, but was always paid when demanded. The metallic reserve was the touch stone of the whole business. The banks learned by experience how many notes would circulate and how much specie was needed. In 1858 the state of Massachusetts, after the panic of the previous year, established a legal reserve of fifteen per cent of specie against both deposits and circulation.

The Suffolk system may be regarded as an example of asset currency based upon a specie reserve. Even though specie payments were suspended during the panic of 1837, the system may be still regarded as a success; for the existing conditions were such that no system of banking could have avoided suspension. The Suffolk Bank system survived the panic of 1837, a statement that cannot be truthfully made of some banks not in the system, and of some of the state systems. In 1857 there were 500 banks in the system. With so large an organization the Suffolk Bank practically had control of the currency. If a bank was not admitted to the system it could issue notes but usually found its circulation limited to a small territory. The Suffolk Bank was a success in New England; but it is a matter of doubt whether or not such a system could be extended over the United States at the present time.

III. The Safty Fund and Free Banking Systems.

In New York Banking reform took another shape. The plan first tried there was the safty fund system, or mutual insurance of circulating notes. This was really a limited or insured system of asset currency. In 1829 a law was passed providing that every bank, the

charter of which should be extended or ^{re}garnted there after, should pay into a "bank fund" one-half of one percent of its capital each year until the contributions should be equal to three per cent of its capital stock. This fund was to be applied solely to the payment of the debts. (exclusive of the capital stock) of failed banks belonging to the system. The fund was to be kept up to the full three per cent by assessments not to exceed a certain per cent each year. The system was amended by various acts, but, owing to defects in it and to frauds on the part of the banks, it did not appear very successful at the time. Events, however, have since shown that it probably would have been a success if continued. All of the notes of the safty fund banks were redeemed.

All of the safty fund banks were organized under special charters. Under the clause of the New York constitution of 1846, which prohibited the granting or extending of special charters for banks the system gradually went out of existance in New York. This system with some modifications was adopted by Canada in 1890.

The free banking law of New York of 1838, established banks that took the place of the safty fund banks under special charters. "It

"It provided that any person or association of persons might receive from the comptroller circulating notes and, after signing them might issue them as money by first depositing with him stocks of the United States, of the state of New York, or of any other state approved by the comptroller, made equal to a five per cent stock of the state of New York, or bonds and mortgages on improved, productive, and unencumbered realestate, worth double the amount of the mortgage exclusive of the buildings thereon, and bearing interest at not less

than six per cent per annum." In case default should be made in the redemption of any such notes, the comptroller is to sell the securities and apply the proceeds to their redemption. Results proved, not that the system was bad, but that it was defective in details. The law was amended so that only stocks of the United States and of the state of New York should be accepted as security for note issue while bonds and mortgages were excluded altogether. After these amendments had been made the notes of banks that became insolvent were redeemed at par.

In several of the states that followed the example of New York the free banking system proved a disastrous failure in consequence of the poor securities authorized to be taken. Before these states had time to perfect their systems the civil war began and the national banking system soon afterwards superseded all other system of issue. In Michigan fraud on the part of the bankers caused the overthrow of the free banking, or bond deposit, system established there before its details could be worked out. Many of the banks were located in the depths of the forest, where there were few human habitations; but plenty of wild cats. Thus they came to be known as "wild cat banks."

The study of this system is of interest because it was the forerunner of our present national banking system. The free banking or bond deposit system is not one of asset currency. Yet it was under this system before it was perfected, and in places where the competition of asset currency was abolished by law, that much of the wild cat currency came into existence. Asset currency must not be blamed

for all wild cat banking. Such banking was due, perhaps, more to existing conditions in the business world in regard to speculation and honesty than to any other cause. Asset currency was certainly not the cause.

The evils experienced under the free banking systems of the different states were due in part to the dishonesty of bankers, and in part to the obstructions placed in the way of redemption and to the lack of a means of compelling redemption. The means of communication between the different parts of the Union were very poor. While this fact limited the territory within which a bank's notes would circulate it also prevented the presentation of the notes for redemption as often as was necessary to keep the bank in a healthy condition.. An asset currency system requires a good plan of redemption, one that forces redemption.

IV. The Currency and the Crisis of 1837.

The crisis of 1837 may, by uninformed persons, be considered a result of the use of asset currency. But this is not true. There were other causes that brought it on regardless of the currency system.

In the crisis of 1837 we would naturally look for an excess of exports of specie; but, on the contrary we find an excess of imports of gold and silver in each year, amounting in the aggregate to \$36,105,256 in the four years from 1835 to 1838 inclusive. "The following facts contributed to this exceptional condition.

1. Borrowing on a large scale from Europe which required importation of specie. The Bank of the United States alone borrowed

¹
\$20,000,000".

2. Increased productiveness of mines in foreign countries, which afforded larger supplies of gold and silver to commercial nations.

3. "Increased purchases of our cotton and other products at higher prices until 1837.

4. The issuance of the specie circular by President Jackson"²

5."The prohibition by many of the states of the circulation of bank notes for small sums making necessary larger supplies of metallic money for change."³

The United States shifted its deposits during the decade between 1835 and 1845, from the Bank of the United States, from which reports could be easily obtained, to state banks from which it was difficult to obtain reports. This fact combined with the greater demand for specie created by the prohibition of small notes accounts for the fact that the banks reporting held less specie in 1838 than in 1834 in spite of the fact that there were large importations of specie during this time.

Following the years of unequalled industrial and commercial growth preceding the crisis of 1837 came the usual results, the excesses which produced loss and waste. A combination of a great number of causes produced and aggravated the crisis of 1837. Besides the necessary railroads and canals a great many unnecessary projects were undertaken; which were to a great extent speculative in their nature. The withdrawal of the public deposits from the Bank of the United States and the placing of them in "pet banks" aggravated

1. Financial Crisis and Periods of Industrial and Commercial Depression by Theodore E. Burton. p. 211)

2. Burton p. 211. 3. Burton p. 212.

matters by disturbing existing commercial relations. The increased opportunities for extending credit produced by this act and by the distribution of the surplus revenues among the states furnished the foundation for injudicious enterprises. Vicious banking methods due to inexperienced and irresponsible men, and not to any system of asset currency, played an important part in the crisis. The high price of wheat and other products, that followed the failure of crops in this country also aggravated it. Increased transportation facilities increased the value of lands, thus brought nearer to the coast, and also the speculative price of other lands and not so fortunately situated. The crisis was not due to any system of asset currency, but to bad industrial and financial conditions produced by influences outside of the currency.

It is to be remembered that the Suffolk system lived through the crisis of 1837, and that the safety fund system of New York redeemed the notes of all failed banks. These two systems of asset currency proved that an asset currency system was capable of withstanding very severe pressure. The Suffolk and the free bank systems existed until superseded by our national banking system.

V. Note Issue under the National Banking System.

In order to understand the currency situation and to comprehend the reasons for the present demand for an asset currency in the United States it will be necessary to give a rather detailed description of the national bank act.

This act was passed in 1863; revised in 1864; and supplemented in 1865 by a bill imposing a tax of ten per cent on the notes of state banks. Each bank before commencing business must deposit with

the Treasurer of the United States a certain amount of registered bonds of the United States. "Each bank shall be entitled to receive from the comptroller of the currency an amount of circulating notes equal to the par value of the bonds deposited by it, but not exceeding its capital stock actually paid in. Whenever the market value of the bonds deposited is reduced below the amount of the circulation, the comptroller may demand the deposit of additional bonds, or of money, equal to the deficiency".¹

The bond deposits under our present system were originally required primarily for the purpose of disposing of government bonds at a time when the government was in need of money. The idea of security for the note circulation had its influence but the strongest pressure in favor of establishing the system was the fact that it furnished a market for United States bonds.

"Bonds may be withdrawn by banks by retiring their circulating notes or by depositing lawful money to an equal amount in the Treasury. Not more than \$3,000,000 in the aggregate can be retired in one month"², nor can the amount of bonds deposited be reduced below certain limitations. "Every bank must receive the notes of every other bank at par in payment of any debt due itself."³ "Each bank must redeem its circulating notes on demand at its own counter. It must also have and keep on deposit in the Treasury of the United States, in lawful money, a sum equal to five per cent of its circulation, *to be held for the redemption* of such circulation when presented in sums of \$1000 or any multiple thereof. The cost of transporting and assorting the

1. White p. 376.

2. White 376.P.

3. White p. 377.

notes must be paid by the bank issuing the same. All defaced and mutilated notes received at the Treasury shall be replaced by new ones at the expense of the issuing bank"¹

"In case of default by any bank in the redemption of its circulating notes, the comptroller must declare the security bonds forfeited to the United States, and give notice to the holders of the notes to present them at the Treasury for payment, and the same shall be paid as presented in the lawful money of the United States".²

"In case of a deficiency in the proceeds of all the bonds to reimburse the government for the redemption of the notes, the United States shall have a paramount lien on all the assets of the bank, (which includes the liability of share holders) and the deficiency must be made good before any other debts are paid. When the notes are paid they must be canceled.

"Each bank must pay to the Treasurer of the United States a tax of one fourth of one per cent each half year on the average amount of its notes in circulation when said notes are secured by the deposit of bonds of the United States bearing interest at two per cent per annum. When secured by bonds bearing a higher rate of interest, the tax is one-half of one per cent each half year. The tax does not apply to circulation for the retirement of which lawful has been deposited in the treasury."³

Banks organized under the provisions of the National Bank Act have the advantage of receiving interest both on the bonds deposited and on the notes issued. At first the interest on the bonds was as high as six per cent. But with so many banks established as at present

1. White p. 377.

2. White p. 378.

3. White p. 378.

and with the government in a position easily to reduce its bonded debt, the law of supply and demand has increased the price of United States bonds to such an extent, that there is scarcely any profit in issuing notes on bonds that return perhaps less than one per cent after all of the expenses of issue are paid.

There is little profit for the banker in issuing notes under present conditions, and from the point of view of the best interests of the country, there is some question whether or not the present system is a detriment or a benefit. The keeping up of a large bonded indebtedness, in order that banks may have bonds to deposit to secure note issues, does not correspond with ideas that prevailed at the time of the Civil war. Then the banks were required to deposit bonds in order that a market might be provided for the bonds; now the banks require the government to issue bonds in order that they may have bonds to deposit.

It is evident if prosperity is to continue that a change must be made some where. The question discussed in this thesis is whether an asset currency system would not be better for the country. It is claimed that an asset currency, properly regulated, would furnish a secure and elastic circulating medium. An examination of asset currency systems in other countries may give some idea as to whether or not this claim has any foundation.

VI. Other Systems of Note Issue.

The Canadian system of bank note issue is more often cited than any other to support the claim of the superior advantages of such a system. Under the Canadian Law each chartered bank has the power to issue its promissory notes payable to bearer on demand for

circulation as money. There is no limitation as to minimum reserve but the notes are limited to the amount of the unimpaired paid up capital stock. Except in so far as the notes are a first charge upon the assets of the bank there is no difference between them and the bank's liabilities on deposit. The fact that bank notes are more like money than checks entitles them to this prior lien.

The Canadian method of obtaining security, convertibility, and elasticity of its bank note currency is as follows:

First, as to ultimate security. Subject to the exceptions above noted and to the provisions that a bank must pay out ~~none~~^{none} but its own notes and must not issue notes for sums less than five dollars, or sums not multiples of five dollars, the Canadian bank note issue is free and plural. However, "when the amount of its own notes ~~out-~~ standing approaches the authorized maximum +++ it has the option of paying out all the paper that comes into it, or to circulate exclusively the notes of some one bank whose issue is further within the legal limit."¹ "The total authorized circulation on 30th June, 1894, was \$61,559,473, the amount outstanding \$30,241,719. The bank note circulation has never exceeded \$40,000,000. (1895). Not more, probably, than four of the banks, with a moderate paid up capital and a relatively large and active business, find their authorized circulation inadequate in the most active season of the year"² January 1, 1894, "the Canadian banks held assets presumably good averaging \$8.809 for every dollar of their notes in circulation." The lowest

1. The Canadian Banking System 1817-1890 by Roeliff Morton Breckenridge Ph. D. p. 407.
2. Breckenridge p. 390.
3. Breckenridge p. 391.

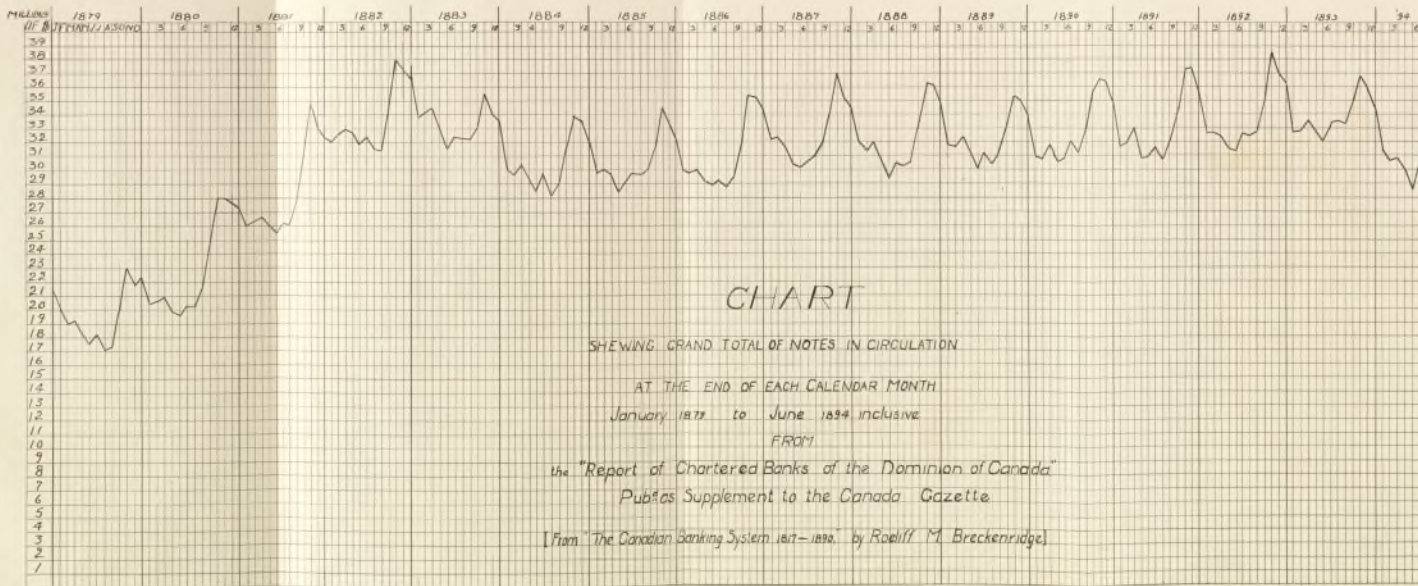
proportion was \$3.56 of assets to \$1.00 of notes, the highest \$15.42 to \$1.00.

The notes of a failed bank bear six per cent from the date of failure. This interest ceases after the day set for redemption. The notes are secured by a five per cent guarantee fund. This fund is annually adjusted to five per cent of the average circulation during the year. If the fund is depleted it is made good by the solvent banks paying in not more than one per cent each year of their average circulation. "Experience has proved that the first lien is ample ultimate security for notes." ¹ The Bank Circulation Redemption Fund is the latest, the strongest, the outermost safeguard set up about the circulating medium of Canada." ² "Formerly it was necessary to keep telling the Canadian public that the currency was good. Now they are convinced." ³

Second, "the convertibility of Canadian bank notes is insured by their character as debts due on demand for the payment of which the entire estate of the issuer is liable." ⁴

Third, "it is precisely in point of elasticity that the Canadian bank note currency is superior to such a circulation as the bond secured notes issued by the national banks of the United States." ⁵ By a glance at the adjoining chart it is easily seen that the amount of the total bank note issue varies greatly during each year, and that the greatest variations occur about the same season of each year. This chart shows plainly the elasticity of the note issue. When notes

1. Breckenridge p. 393.
2. Breckenridge p. 394.
3. Breckenridge p. 394.
4. Breckenridge p. 400.
5. Breckenridge p. 410.



may be issued in this way loans do not have to be drawn in; the result is a benefit to the business community.

The advantages incidental to the Canadian system of issue are:

1. The natural advantage of bank notes, as instruments of known and accepted credit, over checks and individual notes.
2. The advantage of elasticity.
3. The advantage of branch banking.
4. The advantage over other systems in redemption of notes.

A redemption agency is maintained at the capital of each province by each issuing bank. The branches of each bank wherever situated are redemption agencies for the parent bank.

The disadvantage of the Canadian banking system is the lack of government inspection. This lack has been partly obviated by a system of inspection instituted by the banks themselves in regard to their note circulation, but not in regard to deposits.

In England the Bank of England is practically limited to a bond secured system. In addition to the notes secured by government securities notes may be issued when, and only when, gold coin or bullion to an equal amount is deposited. This last limitation has been removed several times in the case of crises with the result that the monetary situation was relieved, and the crisis passed without great disturbance of business. When this restriction in regard to the deposit of gold coin or bullion for the issuing of notes has been removed the Bank of England has had practically an asset currency; which has proven very beneficial to the business world.

"The essential features of the Scotch system of banking have been freedom of note issues, the use of small notes and cash credits."

The currency was elastic and adequate only between 1765 and 1845. Since 1845 it has been restricted within certain limits based on the amount of notes outstanding at the time the law of 1845 was passed plus the amount of cash held on hand. Scotland redemption system is well developed and is greatly facilitated by the small number of bank corporations.

In all three of these systems the number of bank corporations is small; which fact aids greatly in the redemption of notes. The number of different kinds of notes is also small, and each bank's notes are easily sorted and made ready for presentation at the nearest redemption agency. The least elastic system of the three is that of England, which is a bond deposit system. When the restriction on note issue is removed it becomes an asset currency system, and meets the exigencies of the occasion without serious disturbance in the business world. The Scotch system is one of asset currency arbitrarily restricted. It is complained of as inelastic and as growing yearly less and less competent to fulfill the demands made upon it. The Canadian bank note system is an arbitrarily limited one of asset currency. The complaint is even now being made that the system does not meet the demands made upon it; that the annual stringencies in the money market are such that it is not able to meet the demands without drawing in loans and increasing interests rates.

VII. Defects of our Present System.

Our own currency is inadequate to meet the fall stringencies due to the movement of crops. None of these systems are perfect. Neither can it be claimed that an asset currency system can meet

all conditions and situations successfully. That system which reduces the evils of annual fluctuations in the demand for money to the lowest possible level is the best for the business world. Asset currency based upon a metallic reserve possesses the qualities that meet the annual fluctuations better than any other currency.

A bond secured currency is practically inelastic. There is no incentive for the holders of such a currency to present the notes for redemption. The notes are as good as the bonds that secure them. The currency is sound but it fulfills the demands of the country but little if any better than a metallic currency represented by certificates of deposit. The one advantage to the country is the increase in the amount of currency. This advantage is a somewhat doubtful one, and is practically nothing in those places where a deposit currency takes the place of a note currency.

It has been shown that an asset currency secured by a guaranty fund is as safe as a bond secured currency. The loanable capital under an asset currency system is increased or diminished as the demand for it increases or diminishes. An asset currency is elastic, a bond secured currency is not. An asset currency system placed both the note, or credit, and the capital at the place where they are needed. A bond secured system takes more capital from the community than it replaced with notes, for the bonds sell at a premium. In the first instance the business community is benefited; in the second it is not. If bonds sold at par banks could issue notes equal to the amount expended for bonds. The whole country would gain in the amount of circulating currency, but it is questionable whether or not this fact would benefit the community of the issuing

bank. So far as the business community of the issuing bank is concerned it can be safely said that a bond secured system is seldom a direct benefit.

A comparison between two banks, one a non-issuing bank, the other an issuing bank, both required to keep the same cash reserve against liabilities, shows a decided advantage in favor of the issuing bank. The bank itself by being allowed to mobilize and extend its credit receives a greater income. The community by having this credit extended to it in a time of need is enable to carry out business transactions without being forced to sell at a loss.

Asset currency if properly safeguarded, is the best system for the business world. The safeguards necessary are guaranty funds, such as provided in the safety fund system of New York; cash reserves, such as are provided against deposit liabilities; uniformity of issue, so that the notes can be easily recognized; compulsory redemption, so that the system may ^{be} elastic; examinations and reports such as are made under the national bank act, so that fraudulent banking may be discovered and stopped.

VIII Plans for Currency Reform.

A number of plans have been suggested with the idea of reforming our present system and introducing some system of asset currency. These plans embody the different safeguards mentioned, to a greater or less extent. Prominent among the proposed plans are the Fowler Bill, the Mc Cleary Bill, the Indianapolis plan, and the Chicago plan.

All of these plans provide for a guaranty fund, and that notes

shall be a first lien upon assets. The Indianapolis ^{plan} and the Mc Cleary Bill both take up the question of retiring the United States notes. From the annex table it is easily seen that the important parts of a system of asset currency have not been developed by these bills. The Fowler Bill and the Chicago plan both deal more directly with the subject of asset currency. Both of these bills are simple and direct, and develop plans for asset currency that include those provisions necessary to the success of the system. Both plans are faulty in that they limit the issue of the notes to a certain per cent of the paid up capital stock. Neither one provides for bank examination in the plan, but this may be covered by the parts of the existing bank act which would not necessarily be repealed. Both plans are to be commended for establishing a cash reserve basis against note liabilities the same as against the deposit liabilities.

The Fowler Bill does not lay enough stress upon redemption. In order that the system shall be elastic it is absolutely necessary that some smooth working scheme of redemption shall be devised. The Chicago plan has developed a system of redemption that seems to provide for every possible obstruction to the presentation of the notes to the issuing bank for redemption.

The need for reform are more or less evident each year according to the stringencies in the money market which cause distress to the borrowing part of the business world. Borrowing is a necessary part of daily business transactions under our present system of credit. Therefore it is necessary that the reform, if introduced, shall in some way protect the borrowing public from tight money market caused by the annual demand for money to move the crops. But

Provisions.	Fowler Bill	Chicago Plan.	Indianapolis Plan	McCleary Bill.
Guaranty Fund.	+	+	+	+
Notes a first lien upon assets.	+	+	+	+
Notes to be furnished by the United States at the expense of the issuing bank.	+	+		
Reserve against issued notes shall be upon the same basis as is provided against de- posits.	+	+		
notes shall be redeemed in gold coin.	+	+		Goldcoin or nation- al reserve notes.
The United States shall be cut up into redemption districts.	+	+		+
notes to be issued limited to a certain per cent of the paid up capital.	25%	50%	equal to amt. pd. up cap. len invest in real estate.	40%
	+	+		
Tax to be constituted a part of the Guarnty Fund.	+	+		
For the reduction or sus- pension of the tax when the Guar. Fund reaches a certain per cent.		+		
Redemption Fund.		+		
Establishment of Division of Issue and Redemption.			+	+
Provision for the gradual retirement of bonds depos- ited to secure notes.			+	+
For a tax on all circulation over a certain per cent of capital stock.			+	+
One-fourth of the cash re- serves must be in "coin of the United States" actually held in vaults of the bank.			+	

Provisions.	Fowler Bill.	Chicago Plan.	Indianapolis Plan.	McCleary Bill.
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The notes of a bank are not
not to be considered as
any part of is cash
assets.

+

The Redemption and Guar-
anty Funds are not to
be counted as reserves.

+

Examinations of the
banks under the super-
vision of the Unites
States.

+

Branch Banks.

+

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whatever reform is adopted it must not protect the borrowers at the expense of the lenders.

The four plans discussed have this point in view, but none of them would produce the results desired in a way that would be lasting. The main defect lies in the fact that the note issue is arbitrarily limited in each bill to an amount equal to a certain percentage of the capital stock. This one defect would cause any one of the systems to become less and less elastic until in time it would be no better than our present bond secured system, except in the one thing that bonds would not be required. Part of a letter by the Hon. Charles G. Dawes, ex-comptroller of currency, published in the Bankers' Magazine of June, 1903, illustrates this point by showing the condition of Canadian banks for March, 1903. "Their deposit liabilities are about 418 millions. Their authorized currency issues are about 73 millions, and the notes actually in circulation are \$58,283,484. Their cash reserve including money due from banks aggregate about \$80,000,000, or only about seventeen per cent of their deposit and note liabilities. Their possible increase in note issues is now about \$15,000,000, and this represents less than four per cent of the amount of deposit liabilities. In other words, the possible expansion in uncovered note issues in Canada, which will represent the measure of relief which their kind of currency can afford in time of panic is less than four per cent of their present deposits. And this, too, in a time of commercial prosperity and business confidence, and with Canadian bank credits in an already expanded condition." This statement of Mr. Dawes shows what has happened in Canada under a system of issue limited to the amount of capital stock.

It is but reasonable to expect that the results would be the same in the United States. ~~Borrowing~~ this one fault, the scheme set forth in the Chicago plan will produce a thoroughly practical, safe, and elastic system of asset currency. There are no other objections to the plan save in some ~~unimportant~~ details which would not prevent the carrying out of the main principles involved.

A system of asset currency should provide for a guaranty fund, notes should be furnished by the United States at the expense of the issuing banks, and the reserve against issued notes should be the same as against deposits. It is as reasonable to demand that a bank shall not allow its deposits to exceed a certain per cent of its capital stock as it is to make the same demand in regard to note liability. Provision should also be made for a thorough scheme of redemption whereby every obstacle to redemption by issuing banks would be removed. With such a system the business world would be able to carry out its time transactions with less effort and less disturbance than under present conditions.